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Geneva, 23 September 1991
Item 8 (a) of the provisional agenda

OTHER MATTERS IN THE FIELD OF TRADE AND DEVELOPMENT:

(a) ECONOMIC CO-OPERATION AMONG DEVELOPING COUNTRIES:
- FINANCING OF SOUTH-SOUTH TRADE (PARAGRAPH 4 (c)(iii) OF RESOLUTION 4(V) OF THE COMMITTEE ON ECONOMIC CO-OPERATION AMONG DEVELOPING COUNTRIES)

Evaluation of performances and issues of trade financing in developing countries: the case for and the viability of an interregional facility

Report by the UNCTAD secretariat

Corrigendum

Paragraph 96, second sentence

For ten scenarios read eight scenarios

Subparagraph 97 (iv), first sentence

For 95 per cent read 75 per cent and for 5 per cent read 25 per cent

Idem, second sentence

Delete the second sentence.

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Subparagraph 97 (v), second sentence

Amend the second sentence to read as follows:

For the base case, short-term assets are allocated evenly at 25 per cent to each of the A-D risk-class countries, and the same even allocation was effected for the medium term.

Subparagraph 97 (vi), second sentence

The end of the second sentence should be completed to read as follows:

... the credit rating of the borrower from plus 8 per cent for class A to plus 3 per cent for class D.

Paragraph 98, second and third sentences

Delete the second and third sentences.

Paragraph 101, second sentence

Delete the phrase including the problem one.

Idem, third sentence

Amend the third sentence to read as follows:

In the fifth year, the after-tax rate of return on capital is 2.1 per cent in scenario 1 and 8.1 per cent in scenario 5, the high capital one. 17/

Idem, fourth sentence

For 1.0 per cent read 0.3 per cent

For 2.5 per cent read 2.1 per cent

For scenario 9 read scenario 5

Idem, last sentence

For US$7.9 billion read US$6.9 billion

Annex: Summary of individual scenario results

The whole annex should be replaced by the attached revised version.

Annex

SUMMARY OF INDIVIDUAL SCENARIO RESULTS

Base Case (year 5):

Total Assets/Forfait	$1.41 billion
Net Income	$13.7 million
Total Capital	$355.6 million
Return on Total Capital	3.9%
Return on Total Earning Assets/Forfait	1.0%

(Note that "Total Assets/Forfait" is equivalent to the total annual volume of financing.)

Since the Base Case assumes low capitalization, we compare the Base Case to the low-capitalization versions of the scenarios:

Scenario 1: Greater Leverage (year 5)

Total Assets/Forfait	$2.77 billion
Net Income	$7.34 million
Total Capital	$350.2 million
Return on Total Capital	2.1%
Return on Total Earning Assets/Forfait	0.3%

Scenario 2: Less Liquidity (year 5)

Total Assets/Forfait	$1.69 billion
Net Income	$14.0 million
Total Capital	$357.9 million
Return on Total Capital	3.9%
Return on Total Earning Assets/Forfait	0.8%

Scenario 3: Less Medium-Term Lending (year 5)

Total Assets/Forfait	$1.39 billion
Net Income	$9.76 million
Total Capital	$347.0 million
Return on Total Capital	2.8%
Return on Total Earning Assets/Forfait	0.7%

Scenario 4: Smaller Share of Loans to Riskier Country Classes (year 5)

Total Assets/Forfait	$1.48 billion
Net Income	$16.5 million
Total Capital	$354.6 million
Return on Total Capital	4.6%
Return on Total Earning Assets/Forfait	1.1%

Scenario 5: Higher Spreads on Loans (year 5)

Total Assets/Forfait	$1.55 billion
Net Income	$32.8 million
Total Capital	$410.4 million
Return on Total Capital	8.0%
Return on Total Earning Assets/Forfait	2.1%

Scenario 6: Greater Use of the A Forfait Market (year 5)

Total Assets/Forfait	$1.5 billion
Net Income	$13.2 million
Total Capital	$353.3 million
Return on Total Capital	3.7%
Return on Total Earning Assets/Forfait	0.9%

Scenario 7: Higher LIBOR (year 5)

Total Assets/Forfait	$1.54 billion
Net Income	$23.9 million
Total Capital	$389.1 million
Return on Total Capital	6.1%
Return on Total Earning Assets/Forfait	1.5%

Scenario 8: Shorter Maturities and Less Risk (year 5)

Total Assets/Forfait	$1.47 billion
Net Income	$11.9 million
Total Capital	$345.4 million
Return on Total Capital	3.5%
Return on Total Earning Assets/Forfait	0.8%

...

All of these scenarios are projected for high capitalization as well as low capitalization. Comparing the two versions of each scenario gives the following results:

Scenario 1: Greater Leverage (year 5)

Low capitalization:

Total Assets/Forfait	$2.77 billion
Net Income	$7.34 million
Total Capital	$350.2 million
Return on Total Capital	2.1%
Return on Total Earning Assets/Forfait	0.3%

High capitalization:

Total Assets/Forfait	$6.96 billion
Net Income	$19.2 million
Total Capital	$880.1 million
Return on Total Capital	2.2%
Return on Total Earning Assets/Forfait	0.3%

Scenario 2: Less Liquidity (year 5)

Low capitalization:

Total Assets/Forfait	$1.69 billion
Net Income	$14.0 million
Total Capital	$357.9 million
Return on Total Capital	3.9%
Return on Total Earning Assets/Forfait	0.8%

High capitalization:

Total Assets/Forfait	$4.3 billion
Net Income	$35.9 million
Total Capital	$899.3 million
Return on Total Capital	4.0%
Return on Total Earning Assets/Forfait	0.8%

Scenario 3: Less Medium-Term Lending (year 5)

Low capitalization:

Total Assets/Forfait	$1.39 billion
Net Income	$9.76 million
Total Capital	$347.0 million
Return on Total Capital	2.8%
Return on Total Earning Assets/Forfait	0.7%

High capitalization:

Total Assets/Forfait	$3.49 billion
Net Income	$25.1 million
Total Capital	$871.6 million
Return on Total Capital	2.9%
Return on Total Earning Assets/Forfait	0.7%

Scenario 4: Smaller Share of Loans to Riskier Country Classes (year 5)

Low capitalization:

Total Assets/Forfait	$1.48 billion
Net Income	$16.5 million
Total Capital	$354.6 million
Return on Total Capital	4.6%
Return on Total Earning Assets/Forfait	1.1%

High capitalization:

Total Assets/Forfait	$3.73 billion
Net Income	$42.1 million
Total Capital	$890.7 million
Return on Total Capital	4.7%
Return on Total Earning Assets/Forfait	1.1%

Scenario 5: Higher Spreads on Loans (year 5)

Low capitalization:

Total Assets/Forfait	$1.55 billion
Net Income	$32.8 million
Total Capital	$410.4 million
Return on Total Capital	8.0%
Return on Total Earning Assets/Forfait	2.1%

High capitalization:

Total Assets/Forfait	$3.89 billion
Net Income	$83.1 million
Total Capital	$1,030 million
Return on Total Capital	8.1%
Return on Total Earning Assets/Forfait	2.1%

Scenario 6: Greater Use of the A Forfait Market (year 5)

Low capitalization:

Total Assets/Forfait	$1.5 billion
Net Income	$13.2 million
Total Capital	$353.3 million
Return on Total Capital	3.7%
Return on Total Earning Assets/Forfait	0.9%

High capitalization:

Total Assets/Forfait	$3.85 billion
Net Income	$34.0 million
Total Capital	$887.9 million
Return on Total Capital	3.8%
Return on Total Earning Assets/Forfait	0.91.4%

Scenario 7: Higher LIBOR (year 5)

Low capitalization:

Total Assets/Forfait	$1.54 billion
Net Income	$23.9 million
Total Capital	$389.1 million
Return on Total Capital	6.1%
Return on Total Earning Assets/Forfait	1.5%

High capitalization:

Total Assets/Forfait	$3.87 billion
Net Income	$60.6 million
Total Capital	$977.6 million
Return on Total Capital	6.2%
Return on Total Earning Assets/Forfait	1.6%

Scenario 8: Shorter Maturities and Less Risk (year 5)

Low capitalization:

Total Assets/Forfait	$1.47 billion
Net Income	$11.9 million
Total Capital	$345.4 million
Return on Total Capital	3.5%
Return on Total Earning Assets/Forfait	0.8%

High capitalization:

Total Assets/Forfait	$3.68 billion
Net Income	$30.7 million
Total Capital	$867.3 million
Return on Total Capital	3.5%
Return on Total Earning Assets/Forfait	0.8%

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Our conclusion is that the ITFF could make a significant contribution toward closing the financing gap needed to permit developing countries to expand their non-traditional exports, particularly with each other.